

Copyright 2007 Associated Press
All Rights Reserved
The Associated Press State & Local Wire

August 15, 2007 Wednesday

SECTION: STATE AND REGIONAL

California raises tax on sweetened alcoholic drinks

By DON THOMPSON, Associated Press Writer

California regulators voted Tuesday to raise taxes on flavored malt beverages, responding to arguments that the sweetened drinks contribute to underage drinking.

The state Board of Equalization voted 3-2 to tax brands such as Mike's Hard Lemonade and Zima as distilled spirits instead of as beer, which has a lower tax rate. That will increase the tax from 20 cents per gallon to \$3.30 per gallon starting in July 2008, if the board can get the regulations in place by then.

Tax board Chair Betty Yee said she accepted the appeals from youth groups and The Marin Institute, an alcohol industry watchdog group, which argued that the so-called "alcopops" are flavored, packaged and marketed to appeal to young people.

"I think the overarching policy concern here was this is one element in dealing with underage drinking," Yee said in a telephone interview after the vote. The packaging and marketing are designed to "make it look like you're drinking something hip."

Michael Scippa, advocacy director at The Marin Institute, based in San Rafael, said California is following Maine in classifying the drinks as distilled spirits and other states are likely to do the same in an effort to fight underage drinking.

He called the flavored beverages "cocktails on training wheels. They bridge the gap between soda pop and alcoholic drinks because they don't taste like alcohol."

Gary Galanis, a vice president of Diageo North America, one of the world's largest alcohol manufacturers and the maker of Smirnoff, said raising the tax on flavored drinks won't deter underage drinking.

"It's access. It's about how kids get alcohol in their hands. This will do nothing to address that issue," Galanis said after the vote. "Using an emotional issue to help drive a tax discussion is just wrong."

Tax board member Bill Leonard said he opposed the decision because the flavored drinks have roughly the same alcohol content as beer, and there is no chemical difference between alcohol in distilled and malt beverages.

He said it makes no economic sense for manufacturers and distributors to target teenagers who can't legally buy the drinks. And if higher prices do deter underage drinkers, Leonard argued they will simply switch to beer and wine.

Tuesday's vote triggers a monthslong series of public hearings on the proposed regulations by the tax board and the Office of Administrative Law.

Marc Sorini, lead attorney for six companies that produce about 75 percent of flavored malt beverages, said it is too soon to know whether the industry will sue to block the tax change.

The state Legislature also may be required to decide which agency has jurisdiction over the beverages, the tax board or the California Department of Alcoholic Beverage Control, which like the federal government now classifies the flavored drinks as beer.

State Controller and tax board member John Chiang, who voted for the tax change, called on the Alcoholic Beverage Control Department to reclassify the drinks as distilled spirits to help fight alcohol abuse.

The higher tax rate would bring the state an estimated extra \$30 million to \$40 million a year if consumption remains the same, said tax board spokeswoman Anita Gore.

But Galanis, of the beverage-maker Diageo, said the higher cost will hurt retailers, restaurateurs and legal drinkers and cut consumption to the point there will be likely no net tax gain.